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ABSTRACT

The three parts of this paper present a review of how the states provide state aid formula adjustments for enrollment decline, findings of a survey of New Mexico superintendents regarding revision of the state's formula, and the implications of formula revision for the goals of school finance reform. First, it is noted that there is a trend toward adoption of adjustments in school finance formulas to assist school districts in decline. Several different ways state formulas are adjusted are outlined, including "hold harmless" provisions, funding a percentage of decline, and averaging of prior years' student count. Next, a survey of 60 New Mexico superintendents is discussed, with the findings that 46 percent favored continued study of possible formula alterations, 28 percent felt that enrollment decline should definitely be addressed in the formula, and 13 percent indicated that the formula should not address decline. Respondents made 43 suggestions about what form adjustments might take. The author concludes with a discussion of why he feels formula adjustments may run counter to efforts to distribute revenues equitably. He recommends that only severely impacted districts should receive assistance, and then only on a short-term basis. (JM)

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REVISING STATE FINANCIAL SUPPORT DURING ENROLLMENT DECLINE

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Revising State Financial Support During Enrollment Decline

School finance reform has brought demands for equalization of revenues and expenditures, as well as demands for recognition of particular "needs" of school districts. Often included in the list of needs to receive additional funding are specialized programs for pupils, adjustments for higher than average teachers' salaries, and factors for sparsity of school districts. Increasingly common during this period of enrollment decline is the revision of state funding formulas to recognize financial needs of impacted school districts.

The purposes of this paper are to present a topology of provisions present in those states with formula adjustments for enrollment decline, to present findings of a survey of superintendents in New Mexico regarding revision of the state's formula, and to discuss implications of formula revision on goals of school finance reform.

Funding for Enrollment Decline

The trend across the country has been toward the adoption of adjustments in school finance formulas to assist school districts as enrollments decline. As noted in Table 1, all but twenty-two states had provisions for declining student numbers in 1981; in comparison, a majority of states had no provisions in both 1975 and 1978.[1] The nature of funding adjustments varies among the states, with some plans including a "hold-harmless" to guarantee the same or a percentage of the prior year's level of funding or pupil count, and others providing for an optional average of prior years' pupil enrollments (ADM) or attendance (ADA) to cushion the impact of reduction.[2]

Funds distributed to school districts were held harmless in six states in 1981, such that a declining district would receive all, or a portion, of the prior year's aid from the state: Arkansas, where a district's base (1978-79) aid level was adjusted in proportion to losses in ADM; New York, Nevada and Pennsylvania, whose formulas guaranteed 100 percent of the prior year's aid level; Oregon, where districts received a funding grant of 75 percent of the difference between amounts determined by current and previous years' ADM; and Washington, where additional aid was provided to those districts experiencing decline in excess of four percent or 300 students. Nevada and Pennsylvania have added these provisions since 1978, while a guarantee of 90 percent of the prior year's aid entitlement was deleted in Rhode Island.

The amount of state aid received by school districts is dependent largely upon the number of pupils enrolled or in attendance. Holding the number of pupil units to be counted for funding purposes constant during enrollment decline thus protects districts from funding reductions, while a percentage decline in student units cushions the reduction in funds over a period of several years. In 1981, four states required the use of the previous year's enrollment or attendance level in determining state aid: Connecticut, where the student count from the second preceding year was used in the Guaranteed Tax Base formula; Kentucky; Missouri; and New Hampshire. Nine states permitted the use of prior years' enrollments or attendance: Alabama; Arizona; Colorado; Idaho, where the decline in ADA was limited to 1 percent or 10 ADA whichever is greater; Kansas, where prior year's enrollments were permitted if declines were between 4 and 10 percent, depending on a sliding enrollment scale; Montana; Nebraska, where the provision was effective in districts declining more than two percent; New York; and Oklahoma, where the highest of the past three years' ADA (for the foundation program) and ADM

Table 1. Declining Enrollment Adjustments in State Funding Formulas

State	No provision			Funding level held harmless			Student count held harmless: prior year required			Student count held harmless: prior year optional			% of decline in pupil count funded			Average of prior years' student count		
	75	78	81	75	78	81	75	78	81	75	78	81	75	78	81	75	78	81
AL	X	X										X						
AK	X	X													X			
AZ										X	X	X						
AR	X				X	X												
CA													X	X	X			
CO										X	X	X				X	X	X
CT	X	X							X									
DE	X	X	X															
FL	X	X													X			
GA	X	X	X															
HI	X	X	X															
ID	X										X	X						
IL										X							X	X
IN										X	X							X
IA													X	X	X			
KS							X				X	X						
KY								X	X				X					
LA	X	X	X															
ME	X	X	X															
MD	X	X	X															
MA	X	X	X															
MI	X		X											X				
MN													X	X	X		X	
MS	X													X	X			
MO	X	X							X									
MT	X	X										X						
NE	X	X										X						
NV	X	X				X												
NH	X	X							X									
NJ	X	X	X															
NM	X	X	X															
NY	X				X	X		X				X						X
NC	X	X	X													X		
ND		X	X													X	X	X
OH																		
OK	X	X										X						
OR				X	X	X												
PA	X	X				X												
RI	X		X		X													
SC	X	X	X															
SD	X		X															
TN	X	X	X															
TX	X	X	X															
UT	X	X	X															
VT	X	X	X															
VA	X	X	X															
WA	X				X	X												
WV	X	X	X															
WI	X	X	X															
WY	X	X													X			
TOTAL	38	31	22	1	5	6	1	2	4	4	5	9	4	5	7	3	5	5

Source: Education Commission of the States, "School Finance at a Glance," 1975, 1978, 1981.

(for salary incentive aid) were taken into account. A number of states (AL, CT, MO, MT, NE, NH and OK) have added provisions for holding pupil counts harmless since 1978, while New York shifted from a required to an optional prior year's count, and Indiana deleted its hold-harmless provision.

A total of seven states funded a portion of the decline in enrollment or attendance in 1981 to soften the reduction in funds received: Alaska, where declining districts were entitled to 75 percent of the difference in instructional units between the base year (defined as the year prior to a reduction of at least ten percent) and the first year of decline, and to 50 percent and 25 percent of the difference in each of the subsequent two years; California, where 75 percent of the decline was counted as ADA in the first year and 50 percent was included in the second year; Florida, where additional aid was received for 50 percent of the decline in unweighted pupils; Iowa, where 25 percent of the 1978 enrollment plus 75 percent of the greater of the 1979 or 1980 enrollment was included for funding purposes; Minnesota, where a supplement levy (equalized by the state) was permitted for districts experiencing declines between 1979-80 and 1980-81, and where the amount of permitted revenue was a function of the degree of change in pupil units between 1977-78 and 1980-81; Mississippi, where 95 percent of the previous year's ADA was accounted for; and Wyoming, where a district's loss of 100 ADM or 10 percent of ADM was aided. These provisions were added to formula structures since 1978 in Alaska, Florida and Wyoming, while Michigan deleted a similar provision for the 1980-81 school year.

Similar to a percentage reduction approach, the averaging of several years' student enrollment or attendance cushions the impact of declining enrollments on state revenues received. Taking the average of the past two years' student counts was permitted in INdiana, New York and Ohio in 1981. Similarly, a three year average was permitted in Colorado and Illinois.

This optional averaging approach had been enacted since 1978 in Indiana and New York, while a two-year averaging provision was dropped in South Dakota, and an optional formula (which provided additional pupil units based on the difference between a three year average and the current year count) was dropped in Minnesota. Policy makers must be cognizant of advantages and disadvantages of various methods for adjusting funding formulas designed to assist districts to cope with the problems of declining enrollment. A save-harmless approach fosters minimal disruption of ongoing educational programs by guaranteeing a somewhat constant flow of funds. These "no loss" clauses[3] do not, however, confront critical issues brought by enrollment decline. Neither the degree of enrollment decline relative to district size, nor the longevity of the decline is confronted and recognized by a save-harmless provision.[4] Rather than consider which districts have the greatest need for available funds, state legislators demonstrate a continued "paternalism"[5] toward school districts. As Goettel and Firestine point out, save-harmless approaches result in inefficient and inequitable distributions of funds:

> While channeling some funds to districts whose need is relatively low, it introduces unnecessary total aid costs to the state while discouraging certain local economies which would be desirable at the district level.[6]

Although expenditure reductions are forced under an approach which holds revenue levels harmless during times of rapid inflation, approaches which hold student counts harmless do not address concerns with efficiency and equity in revenue distributions. Nevertheless, Leppert and Routh argue, "in dollar guarantee states, the floor lasts for years, while in student guarantee states,

the count guarantee lasts a short time and districts must confront the realities of these losses in subsequent years."[7]

The development of other approaches to fund enrollment decline has been in response to the concern for recognizing legitimate district needs during decline, while simultaneously encouraging district planning for reduction. Options for including a percentage of the student units lost during enrollment decline, or for averaging several years of student counts, cushion the reduction of funds to school districts. Despite the advantages of permitting gradual adjustments in programming and staffing and thus encouraging district planning and efficiency, a percentage reduction approach does not recognize differing needs such as characteristics of student populations or district size, nor does it consider the longevity of decline. Similarly, the averaging of student enrollment or attendance over several years encourages district planning for reduction while softening the blow of drastic funding losses. Goettel and Firestine suggest a weighted average approach, placing emphasis on the most recent years' counts, to better address the above concerns with degree and longevity of decline.[8]

Declining Enrollment and the New Mexico Funding Formula

School finance reform occurred in New Mexico in 1974 with the adoption of an equalization guarantee formula. Various factors of this funding formula recognize the additional costs inherent in differing grade levels, in differing pupil needs (e.g. special and bilingual education), in differing teacher training and experience, and in differing sizes of schools and school districts.

Neither the original 1974 legislation nor subsequent modification in 1976 and 1981 recognized the particular needs of districts confronted with declining enrollments. However, the 35th New Mexico legislature (1982) directed the Legislative Education Study Committee and the Public School Finance Division of the Department of Finance and Administration to study the effects of declining enrollment upon school districts, and to investigate possible adjustments to the funding formula to assist districts experiencing decline.

Several studies during the interim focused upon the problems of decline generally[9] and upon the needs of small school districts specifically.[10] While it might appear that diminished resources and personnel result in program deterioration, findings from King's investigation suggested that educational quality may indeed improve under such conditions.[11] Davis encouraged an "increased leadership and assistance role from agencies and institutions throughout the state"[12] to help school districts improve program offerings while coping with demands for reduction. Swift concluded that many of the problems faced by very small school districts (e.g., meeting certification mandates and providing housing for staff) are not resolvable with general infusions of additional funds alone.[13] In addition to investigating effects on program, King's study examined superintendent's perceptions of the need for a funding formula adjustment to assist districts during periods of enrollment decline.

Superintendents of New Mexico Public school districts which were reported[14] to anticipate declines or minimal increases in average daily membership (ADM) were surveyed.[15] A total of sixty of these seventy-eight superintendents responded, representing a seventy-seven percent return rate. One section of the questionnaire solicited information regarding the desirability of modifying the funding formula and, if appropriate, the preferred form of a declining enrollment adjustment.

Similar to the variation noted in Table 1 among the fifty states in the need for and form of provisions to adjust state revenue during enrollment decline, New Mexico superintendents disagreed in their responses (see Table 2). Of the sixty superintendents of districts facing decline or minimal growth in student population who responded to this survey, twenty-eight (46%) favored continued study of possible alterations in the funding formula. A total of seventeen (28%) of the respondents, including seven in districts which have not yet had to reduce personnel, agreed that enrollment decline is a serious issue which should "definitely be addressed in the funding formula". In contrast, thirteen (21%) of the superintendents, including seven in districts which had already experienced personnel reduction, indicated that the funding formula should not address declining enrollments.

Similar disagreement was observed among the forty-three suggestions made by superintendents for the form in which an adjustment might be applied to provide recognition for impacts of declining enrollments. Twenty-five percent of those responding to this open-ended question favored a formula adjustment to cushion or delay the impact of reduction in funds. While many urged a one-year postponement of negative financial impact (i.e., funds or ADM held harmless), several suggested a "staggering" of funds reduced to enable districts to adjust to the new conditions over a period of two to five years. A percentage reduction of student count (e.g., 25-50 percent of the loss in ADM) was suggested by two superintendents, and an averaging of prior years' ADM was urged by one superintendent to soften the impact of decline. One superintendent, recognizing the vagaries of state politics, commented "if the formula is altered, it will take the form which is politically expedient to the greatest number of districts."

Table 2. Need for Revision of the New Mexico School Funding Formula

Response	Superintendents from districts in which personnel reduction due to enrollment decline: Has occurred		Has not yet occurred		Total	
	#	%	#	%	#	%
1. Declining enrollments should definitely be addressed in the funding formula	10*	30	7	25	17*	28
2. Possible alterations to the formula should be investigated and implemented if such funding is warranted	15*	45	13	47	28*	46
3. The funding formula should not be revised to address declining enrollments	7	21	6	21	13	21
4. Unsure whether the formula should be revised	1	3	2	7	3	5
Total	33	100	28	100	61	100

*Include multiple responses from one superintendent

Nevertheless, concern for maintaining the integrity of the funding formula provisions currently in place was expressed by many of the superintendents who desired to increase funds by adjusting the cost differentials to recognize shifting pupil needs or by continued modification of size adjustment factors[16] to assist small, rural districts during decline. Others felt that certain fixed costs, which do not decline commensurately with enrollments, should be funded outside of the funding formula, compensating districts for the costs of utilities, facility maintenance and equipment purchases as is currently the case with pupil transportation and instructional materials.

As expressed by one respondent, assistance is needed to guard against the "possible shock of a large percentage drop in enrollment with severe attendant fiscal strain." Several others concurred, indicating that minor enrollment decline should not be recognized within the formula; only the "real emergencies" such as a major economic loss to a community resulting in enrollment decline should trigger a response by the state. After interviewing superintendents and state agency officials, Davis commented on the impact of emergency situations:

> Given the instability of enrollment patterns, migration unpredictability, and business failures, there will continue to be school districts within the state that experience major unpredicted falls in population that cannot be easily accommodated within school systems without wrecking havoc on programs and subsequently the quality of education within those districts.[17]

She concludes that emergency funds should be available to aid districts which face severe economic losses, yet cannot accommodate the lost funding through increased frugality and adjusted budget priorities.

The issue of school or district consolidation was not addressed by respondents. Rather than suggesting incentives for such reorganization, several superintendents urged the legislature or State Board of Education to define a "minimum basic educational program" and a "necessary school". Once accomplished, the state should assure through additional funding that no necessary school would fall below the minimum program level. Another superintendent urged the state to consider changes in the minimum educational standards and certification requirements for schools with less than 200 ADM.

Although the impacts of declining enrollments were sufficiently apparent in 1982 to warrant the legislative request for studies, proposals for formula alteration were not forthcoming as the 1983 legislature commenced for several reasons. First, it is becoming more apparent that conditions of decline will not continue in the next decade. The rate of decline in student enrollment has abated as growth in enrollments is being experienced in early elementary grade levels; stabilization in overall enrollments is anticipated in the next several years. As noted by Davis, schools have survived the worst of the decline cycle: "School districts have, through sacrifice and planning, managed to adjust and survive declining enrollment impacts for the past ten years. This is not to argue that there have been no negative impacts, as surely there have been, but perhaps the worst is almost over."[18]

Second, little concensus was expressed by superintendents and state agency officials regarding either the need for or the form of a funding adjustment to assist districts which face enrollment decline.[19] Although presentations on program and funding needs of districts experiencing decline were made before legislative committees prior to the beginning of the 1983 legislature, neither the Legislative Education Study Committee, the Public School Finance Division nor the State Department of Education advanced proposals for assisting districts with enrollment declines. This issue, along with others which might otherwise

have been addressed by the legislature, was shelved as the legislative session confronted the more pressing resolution of the revenue shortfall. The unanticipated revenue decline resulted in overall losses to public schools as the equalization "guarantee" was reduced midyear to $1511 per unit of need from the appropriated 1982-83 level of $1540, and has been further reduced to $1483 for 1983-84.

Despite the shelving of the declining enrollment issue prior to the session, the funding bill was amended in the House Appropriations and Finance Committee to include a save-harmless provision for the most seriously impacted districts. This adjustment, moved through the legislature under the direction of the Representative who serves a school district which has suffered a substantial decline for the past three years due to the closing of uranium mines, was the first to be enacted in New Mexico. A contingency fund of $600,000 has been established for the "purpose of guranteeing that the program cost distributions to school districts in the seventy-second fiscal year do not fall more than five percent from the adjusted level of program cost distribution for the seventy-first fiscal year."[20]

It is anticipated that only four to six districts will qualify for distributions under this provision. While appearing to be a politically motivated amendment, this establishment of a dollar amount below which no district can fall has merit. Unlike a 100 percent save harmless, school districts receiving 95 percent of the prior year's funding are encouraged to plan for reduction in the coming year. Program and personnel needs must be assessed, and decisions made for reducing the budget. Nevertheless, holding harmless even a percentage of a prior year's revenue or number of program units disrupts the "equalization" of revenue distribution. The recognition of "needs" of declining districts must be balanced with the potential impact on an otherwise equalized distribution plan. Is a 95 percent hold-harmless of program units

a reasonable compromise between no assistance for declining districts and a 100 percent save harmless which would guarantee the same level of program units? Is a 95 percent hold-harmless any more offensive to the concept of equalization than are adjustments which recognize additional costs associated with pupil, personnel and district "needs"?

Revising State Finance Formulas:
Maintaining Equalization

Among the many considerations to be taken into account whenever state policymakers approach the task of revising finance structures are several which are particular to equalization formulas. An analysis of potential impacts of declining enrollment "adjustments" or the New Mexico funding formula indicates that such adjustments may run counter to continuing efforts to distribute revenues equitably.

A recent longitudinal analysis[21] of the impact of New Mexico formula revisions on two primary goals of school finance reform concluded: (1) fiscal neutrality is nearly a reality in New Mexico where district revenues and expenditures are no longer closely related to district wealth, as demonstrated by diminished correlations, regression coefficients and elasticities for relationships between per pupil revenues and expenditures and per pupil property valuations; and (2) although disparities in revenues and expenditures among school districts continue to persist, these disparities are functions of "legitimate" measures of educational and financial needs of school districts, rather than reflections of district wealth. The degree to which a declining enrollment provision would jeopardize these goals of school finance equalization should be of utmost concern to policymakers.

In many states in which state revenues continue to be correlated with local property wealth, provisions which hold revenue levels or pupil counts harmless serve to aggravate the relationship between per pupil revenues

and property wealth. In contrast, states like New Mexico which have turned to a uniform tax rate[22] statewide, and have adopted a foundation program which guarantees a funding level in excess of that raised by local tax revenues, would jeopardize gains in fiscal neutrality with the adoption of adjustments to raise additional revenue in any way related to local district wealth. Although very few of the approaches presented in Table 1 would directly affect fiscal neutrality, it appears that alterations which permit school districts to impose a supplemental levy to raise an amount of revenue related to the degree of decline in student numbers, would have an impact on fiscal neutrality in states which had previously standardized tax rates.

In addition to the concern of reversing recent trends toward fiscal neutrality is the potential for substantial increases in per pupil revenue and expenditure disparities caused by declining enrollment provisions. School finance reform efforts recognize the inequities caused by absolute equalization of per-pupil revenues available to all students.[23] The definition of pupil and school district "needs" is critical in public school finance so that legitimate educational and financial needs are met with appropriate funding levels. Nevertheless, care must be exercised not to create excessive revenue disparities by over-funding of artificial "needs".

Adjustments and cost differentials in the New Mexico funding formula are designed to recognize additional funding needs of pupils and school districts. These provisions include: (1) weighted pupil cost differentials, funding additional costs of varying grade levels and specialized programs; (2) a training and experience index, providing additional revenue to offset higher salaries dictated by advanced training and years of teaching experience; and (3) size adjustment indices, generating substantial revenue to small districts (ADM less than 4000), to districts with small schools (ADM less than 200 for elementary and junior high schools and ADM less than 400 for

secondary schools), and to one "rural isolated" school district having a large pupil population spread over an extremely large geographic area. Each of these adjustments currently impact revenue disparities; nevertheless, the larger disparities are justified by the "needs" which are met by each provision.

It is clear that the funding of students in declining enrollment districts at higher per-pupil revenue levels (due to a hold-harmless, percentage reduction or enrollment averaging adjustment) than in nondeclining districts would run counter to the goal of equalization. Nevertheless, declining enrollments can be viewed as a "need" of schools and districts (similar to needs dictated by pupils, teacher experience/training, and school/district size) which should be funded despite any negative resulting effects on equalization. It might be true, however, that effects of declining enrollments on cost differentials, teacher experience/training, and size adjustments are sufficient to raise additional revenue during enrollment decline, and that another adjustment might serve to further increase revenue disparities beyond that which is necessary to recognize legitimate needs. The discussion which follows thus focuses upon the three adjustments currently in place in the funding formula, and the need for further revision to assist declining enrollment districts.

Shifting enrollment patterns during decline have implications for revenue generated by pupil-weighted funding formulas. In the early stages of enrollment decline with greatest impacts in elementary grades, the continued growth in high school enrollments enabled districts to maintain programs at all levels due to the larger high school cost differential. More recently, with districts facing decline at the high school level as the "bulge" finally has moved through the system, fewer funds are generated by the formula. Further, the rate of revenue decline is accelerated due to larger weights (1.25 in

in New Mexico), as compared with the decline experienced in elementary grades with their smaller program weights. The impact of the loss of revenue on educational programs is potentially quite severe, particularly when fixed costs and expenditures for administration, maintenance of facilities, utilities, and so forth do not decline at the same rate as enrollments and revenue. As Goettel and Firestine point out, "Until the enrollment of a particular school falls enough to warrant closing that school, costs for operation and maintenance of plant will be virtually unaffected by the enrollment decline."[24] It thus appears that the need for an increase in high school program weights or cost differentials is justified to assist schools and districts during severe enrollment declines. Furthermore, additional aid allocated through a pupil-weighted formula with a somewhat larger weight for districts with declining numbers of secondary students would be consistent with goals of school finance equalization.

Specialized programs to meet needs of pupils (e.g., bilingual, vocational, special, compensatory education) are similarly impacted by declining enrollments. Goettel and Firestine argue that urban areas are most severely impacted as outmigration of middle-class white and black families continues and as the decline in birth rates is more dramatic among middle-than low-income families.[25] The remaining student groups consist of higher proportions of economically and educationally disadvantaged pupils who require higher cost programs, yet state funding schemes allocate fewer funds due to overall enrollment decline. Special needs of students might be under-recognized during enrollment decline, or, conversely, needs of regular pupils might be sacrificed to continue serving the specialized programs, as resources dwindle. Conflicts between categorical funding for special programs and pupil-driven formula funding without close monitoring are increased during enrollment decline, as noted by Leppert and

Routh: "Some states may wish to switch to fixed-cost grants to prevent districts from cutting selected programs, while other states may wish to convert existing fixed-cost categoricals to student count-driven grants to prevent overfunding or to force districts to establish local spending priorities."[26] As in the case of grade level differences, it appears that justification exists for adjusting program weights or cost differentials for special programs during enrollment decline, or for removing special programs from the funding formula with excess costs of such programs fully funded by the state.

In addition to impacts of shifting student populations on funding, the effect of declining enrollments on teachers' salaries in states which recognize teacher experience and training must be addressed. As enacted in 1974, the New Mexico equalization guarantee formula included a teacher training and experience (T&E) index to help offset costs associated with higher salaries. It is argued that such a factor is imperative in an equalization formula which does not permit voter override; otherwise, excessive resources would be taken from other budgetary requirements (e.g., supplies and equipment, facility operation and maintenance) necessary for meeting pupil needs, or districts would be encouraged not to hire or retain high salaried personnel.

As fewer personnel are hired, or as those with less seniority are retrenched due to enrollment decline, there are limited opportunities to replace high cost staff members with beginning teachers. Thus, average salaries of personnel remaining in declining school districts continue to rise, as do training and experience indices used in calculating state funding levels. Leppert and Routh speculate that such indices in state finance formulas will be more costly on a per-pupil basis to the legislature during enrollment decline, "but this practice will be relatively beneficial to local districts in meeting the higher per-unit costs which accompany declining enrollments."[27] In a recent study of

the T & E Index in New Mexico, Garcia notes that increases in revenues generated by the index annually are indeed directed to increases in teachers' salaries in a majority of school districts.[28] While it is clear that increased staff costs related to decline are thus shifted to the state, it appears that the increased revenue received is used to offset increased salaries as experience and training levels grow. While all districts are benefited by this absorption of increased staff costs by the state, this cushion can be viewed as a declining enrollment "adjustment" which affects only the staff costs in the majority of districts. The additional revenue is an adjustment in overall operating expenditures beyond the increased staff costs, performing as speculated by Leppert and Routh, only in those districts which do not increase compensation commensurate with the growth in revenues due to large T & E indices.

If one accepts the assumption that the lack of teacher training and experience recognition is disequalizing in a formula designed to equalize revenues available to meet student needs, then one must agree that the generation of additional state funds to meet rapidly increasing average salary levels during decline is necessary. To the degree that the additional revenue forthcoming exceeds increased compensation levels of personnel, one must also agree that funds so diverted to other program and facility needs are disequalizing--yet might be necessary to offset higher per-unit overall costs.

Potential impacts of enrollment decline on small school districts are noted by Odden and Vincent, "The situation for smaller districts conforms with the fairly general findings of regional economic analysis where smaller population areas tend to be relatively less 'stable'--they tend either to grow or decline significantly."[29] Similarly, Goettel and Firestine observe that "small, rural districts are likely to be those most strongly affected by problems of declining enrollments" in states that are primarily rural in character.[30]

Adjustments within school finance structures are found in a majority of states to provide additional revenue for small or sparsely populated school districts. As enrollments decline, relatively more funds on a per-pupil basis flow to school districts which qualify for such adjustments. The impact of size adjustment indices on revenues for districts in an otherwise "equalized" state is noted by Swift in his analysis of funds and programs of New Mexico districts with enrollments below 300 ADM, "The ability of the very small districts to spend twice the statewide per-pupil expenditures reflects the revenues generated by the school and district size adjustment factors."[31] His conclusion suggests that it is not clear that additional money alone will alleviate the myriad of problems faced by these small districts during enrollment decline. Again, the advantages to be realized from additional state assistance through enactment of a declining enrollment factor must be weighed against the further disequalization which is caused by excessive recognition of needs of small districts. As in the case of teacher training and experience, the small districts of the state are cushioned somewhat by the presence of size adjustment factors.

The one year provision of a 95 percent save-harmless in New Mexico will ease the burden of enrollment decline in those districts most severely affected, while causing minimal additional per pupil revenue disparity. This "trial run" of a declining enrollment factor should provide greater insight into the degree to which districts' needs are met relative to the degree to which revenue disparities are expanded. In addition, an opportunity is available for study of formula components (program cost differentials, T & E index, and size adjustment) to determine if further modification of these factors might be necessary to better reflect "needs" of declining

versus nondeclining school districts, and if such modifications will have a beneficial or adverse effect on "equalization" of revenues.

Conclusion

If state aid policies were based directly upon the number of students in enrollment or attendance in school districts, state funding assistance would decline rapidly as student numbers declined. With the presence of various factors to adjust state assistance in recognition of pupil programs, teacher experience and training and other school/district characteristics, the loss of funding has been cushioned as enrollments decline. Nevertheless, districts facing decline in secondary grades appear to be in greater need for funding assistance than those with decline in elementary grades where cost differential weights are generally lower. Moreover, those school districts with concentrations of pupils in special education and compensatory programs appear to be in need of additional financial assistance as overall enrollments and revenues decline.

Similarly, as enrollments decline and teacher numbers stabalize or decline, districts experience additional burdens as average salaries rise. An additional cushion is made available to those districts which qualify for sparsity or size adjustments in states which employ such adjustments.

Given the"cushions" resulting from these adjustments currently in place to recognize other "needs" of districts, it is doubtful that all enrollment decline experienced in all school districts must be further cushioned by a declining enrollment factor. Continued upgrading of equalized funding levels should enable the majority of districts to confront the demands of decline. Excessive over-funding of decline has potentially adverse consequences for the concept of equalization in school finance. Those districts which are not severely impacted should be expected to reduce budgets and staff in

response to fewer students; formula factors such as those discussed above provide sufficient cushion to ease the transition to diminished revenues. Severely impacted districts, on the other hand, should receive funding assistance so that programs do not suffer permanent damage. It is only for those districts that short-term revisions in state financial assistance should be provided. To provide substantial additional assistance to all districts is to jeopardize gains made toward equalization of school finance.

Endnotes

1. "School Finance at a Glance" (Denver: Education Commission of the States, 1975, 1978 and 1981).

2. A detailed discussion of these formula provisions is provided by Jack Leppert and Dorothy Routh, "An Analysis of State School Finance Systems as Related to Declining Enrollments" in Susan Abramowitz and Stuart Rosenfeld, eds., Declining Enrollment: The Challenge of the Coming Decade (Washington, D.C.: National Institute of Education, 1978), pp. 187-208.

3. Leppert and Routh, "An Analysis of State School Finance Systems," p. 190.

4. Robert J. Goettel and Robert E. Firestine, "Declining Enrollments and State Aid: Another Equity and Efficiency Problem," Journal of Education Finance 1 (Fall 1975), p. 212.

5. Leppert and Routh, "An Analysis of State School Finance Systems," p. 194.

6. Goettel and Firestine, "Declining Enrollments and State Aid," p. 212.

7. Leppert and Routh, "An Analysis of State School Finance Systems," P. 195.

8. Goettel and Firestine, "Declining Enrollments and State Aid," p. 213.

9. Beatrice L. Davis, "Effects of Declining Enrollments: A New Mexico Study" (Santa Fe: New Mexico Public School Finance Division, 1982); and Richard A. King, "Declining Enrollment: Implications for Public Education in New Mexico" (Unpublished Monograph, The University of New Mexico, 1982).

10. Douglas Swift, "New Mexico's Very Small School Districts" (Santa Fe: New Mexico Public School Finance Division, 1982).

11. Richard A. King, "Enrollment Decline: A Blessing in Disguise?" National Association of Secondary School Principals' (NASSP) Bulletin, forthcoming.

12. Davis, "Effects of Declining Enrollments", p. 48.

13. Swift, "New Mexico's Very Small School Districts."

14. Bonnie B. Wood, Issues and Answers: New Mexico Public School Budget Summary, 1981-82 (Santa Fe: New Mexico Public School Finance Division, 1981), p. 2.

15. King,"Declining Enrollment."

16. A 1981 legislative alteration of the high school size adjustment factor provided additional funding to districts with high schools between 67 and 400 pupils in ADM. Several of the superintendents responded that this alteration sufficiently assisted small districts cope with decline; others urged greater recognition for all schools and districts which qualify for size adjustment.

17. Davis, "Effects of Declining Enrollments," p. 42.

18. Davis, "Effects of Declining Enrollments," p. 41.

19. King, "Declining Enrollment," p. 29; and Davis, "Effects of Declining Enrollments," P. 37.

20. House Bill 2, New Mexico Legislature, 1983, p. 47.

21. Richard A. King, "EQUALIZATION IN New Mexico School Finance," Journal of Education Finance, forthcoming.

22. In reality, the uniform tax rate in New Mexico has a negative, yet minimal, impact on the goal of fiscal neutrality. Districts are able to retain revenue raised by the 0.5 mill levy on residential property and five percent of revenue raised by a 2.0 mill levy on nonresidential property for operational purposes. In 1983-84, none of the local levy will be credited toward the state equalization guarantee, as districts will retain the 0.5 levy on both residential and nonresidential property.

23. For a recent discussion of equity in school finance, see Stephen J. Carroll, "The Search for Equity in School Finance" in Walter W. McMahon and Terry G. Geske, eds., Financing Education: Overcoming Inefficiency and Inequity. (Urbana:University of Illinois Press, 1982), pp 237-266

24. Goettel and Firestine, "Declining Enrollments and State Aid," p. 209.

25. Goettel and Firestine, "Declining Enrollments and State Aid," p. 214.

26. Leppert and Routh, "An Analysis of State School Finance Systems," p. 201.

27. Leppert and Routh, "An Analysis of State School Finance Systems," p. 199.

28. J. Patrick Garcia, "In Search of Equitable Training and Experience Cost Recognition: An Investigation of the T & E Index in the New Mexico School Funding Formula" (Ph.D. Dissertation in progress, The University of New Mexico).

29. Allan Odden and Phillip E. Vincent "The Fiscal Impacts of Declining Enrollments," Report No. F-76-5, (Denver: Education Commission of the States, 1976), p. 10.

30. Goettel and Firestine,"Declining Enrollments and State Aid," p. 207.

31. Douglas Swift, "Declining Enrollment and the 'Very Small' School District" paper presented at the Annual Meeting of the Rocky Mountain Educational Research Association, 1982, p. 1.